

Bond Financing for Capital Projects

Presentation to the Commission

Douglas B. MacDonald

Secretary
Department of Transportation

Amy Arnis

Deputy Director
Strategic Planning & Programming

Allan J. Martin

Deputy State Treasurer
Office of the State Treasurer

Robert Shelley

Vice President
Public Finance
Seattle-Northwest Securities Corporation

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Bonding is the process of borrowing money so that projects can be built today and paid for during their service life.

Bonding is the standard financing mechanism for public capital investment.

44 of the 50 states currently use bonding as a way to pay for transportation projects.

*“The Aa1 rating assigned to the State of Washington’s general obligation bonds is based on its significant economic resources, and **institutionalized conservative fiscal practices** that have historically led to sound financial results.”*

Moody’s Investors Service August 30, 2004

What We Don't and Do pay for with money we borrow through bonding.

It is almost ***never*** appropriate to pay for operating costs with bonds.

Bonds ***are*** used to finance capital projects.

Capital improvements should last longer than the bond.

- Bridges (75 years)
- Buildings (50 years)
- Concrete Pavements (40 years)
- Ferry Vessels (25 years to first renovation)
- Ferry Terminals (60 years)

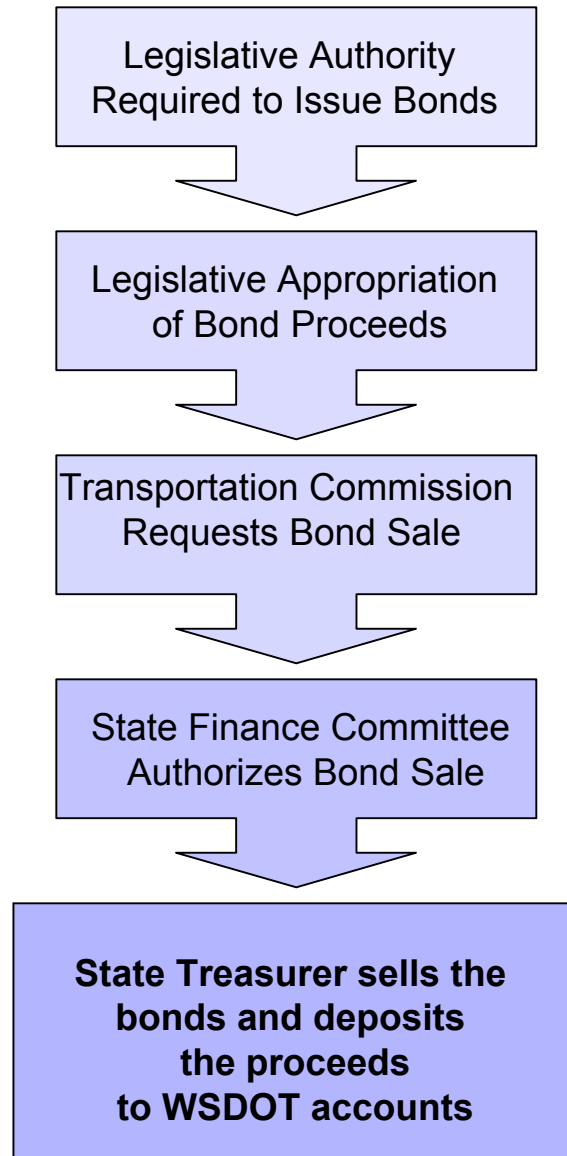
Bonding allows for projects to be built today and paid for by the people as they use them.

Bonding allows projects to be built now using future revenues.

Bonding spreads costs over a longer period of time.

Bonding allows for urgently needed transportation projects to be built.

The Bonding Process



Bonding authorizations require 60% majority vote of the legislature.

The Legislature also must appropriate the bond proceeds to programs and expected projects.

The Transportation Commission delegates to the Secretary the responsibility to request sales when proceeds are needed based on a detailed cash flow analysis. In the recent past, bond sales have occurred twice each year.

The State Finance Committee authorizes the sale of the bonds.

Bonds are sold and the proceeds are directed to the proper WSDOT account by the State Treasurer.

Debt Service is the periodic payment of principal and interest on the bond.

The people that loan the money by purchasing the bonds expect the interest and principal to be paid. Bondholders look to:

- Any money the state has. (Full faith and credit of the state)
- A particular stream of taxes. (Such as the gas tax)
- Tolls or other project revenue. (Such as tolls for crossing a bridge)

The more collateral the borrower has, the better (lower) the interest rate of the bond.

What Are The Sources Of Funds That Back WSDOT's Bonds or Provide "Backfill" to Transportation Accounts?

	R-49 & Other Highway Bonds	Nickel Gas Tax Bonds	Multimodal Bonds
Full Faith & Credit of the State	X	X	X
Tax Stream:			
Gas Tax	X	X	
Multimodal Revenue			X
Tolls or Project Revenue	X		
	\$2.2 billion	\$175 million	\$20 million

Tacoma Narrows Bridge bonds are part of the R-49 bond authorization and are backed by the gas tax. To date, of the total (\$2.3 billion) in bonds that have been sold, \$498 million have been issued for the bridge. State law requires the gas tax to be reimbursed by the toll revenues for payment of debt service.

A debt service schedule for payments and interest on the bond is much like any other loan payment schedule.

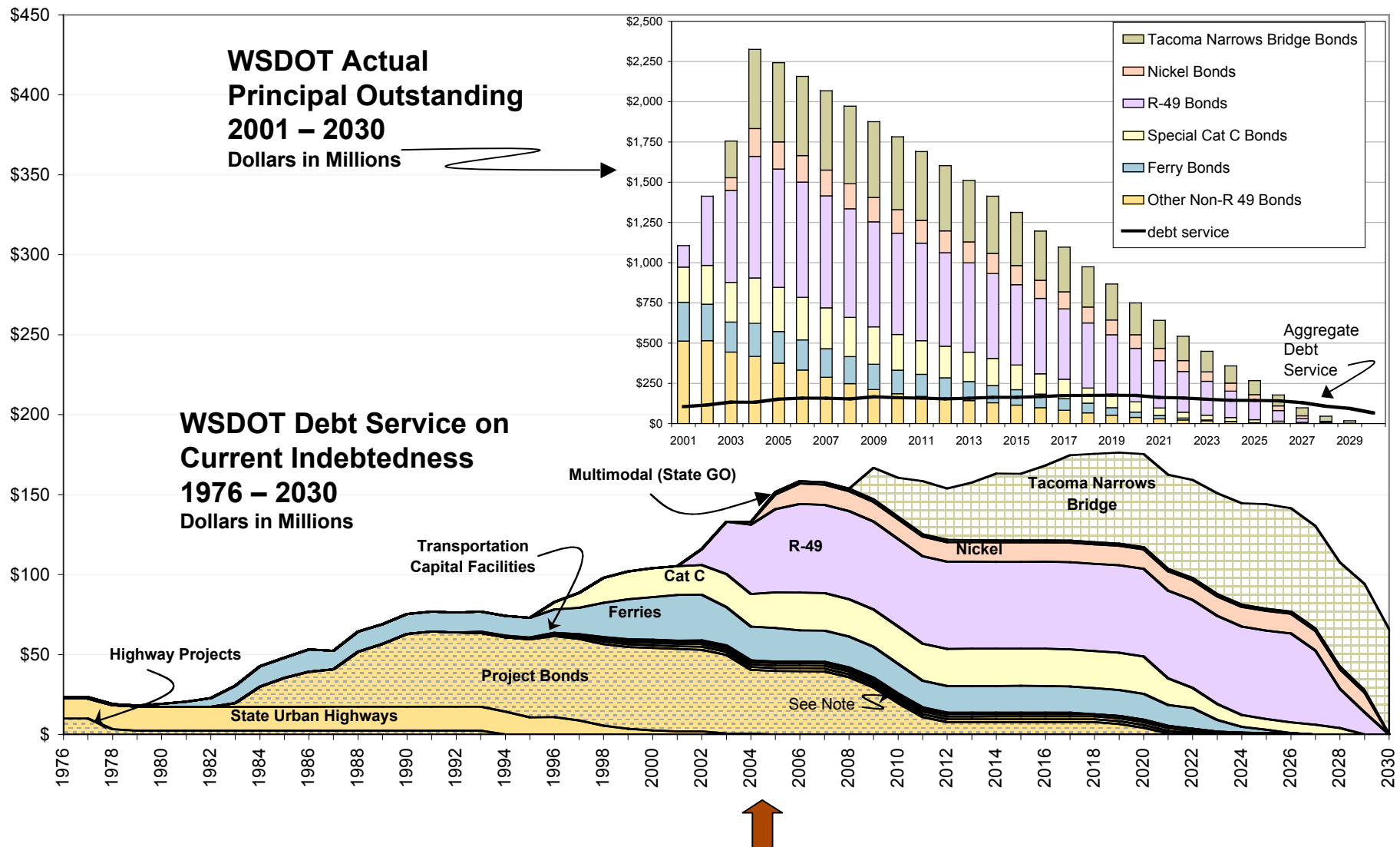
The amortization schedule below is for a Special Category C highway bond of \$29,000,000 sold on July 27, 2004.

- The interest rate for this bond sale was 4.667%.
- Payments on principal are made once a year and payments of interest on the unpaid balance are made twice each year.
- Over the 25 life of the bond the state will pay \$29,000,000 in principal payments and \$22,440,027.78 in interest payments for a total of \$51,440,027.78.

Payment Date	Principal	Interest	Total Payment	Principal Outstanding	Payment Date	Principal	Interest	Total Payment	Principal Outstanding
				\$29,000,000.00	7/1/2017	1,060,000.00	486,250.00	1,546,250.00	18,390,000.00
1/1/2005	0.00	620,277.78	620,277.78	29,000,000.00	1/1/2018	0.00	459,750.00	459,750.00	18,390,000.00
7/1/2005	640,000.00	725,000.00	1,365,000.00	28,360,000.00	7/1/2018	1,120,000.00	459,750.00	1,579,750.00	17,270,000.00
1/1/2006	0.00	709,000.00	709,000.00	28,360,000.00	1/1/2019	0.00	431,750.00	431,750.00	17,270,000.00
7/1/2006	660,000.00	709,000.00	1,369,000.00	27,700,000.00	7/1/2019	1,180,000.00	431,750.00	1,611,750.00	16,090,000.00
1/1/2007	0.00	692,500.00	692,500.00	27,700,000.00	1/1/2020	0.00	402,250.00	402,250.00	16,090,000.00
7/1/2007	680,000.00	692,500.00	1,372,500.00	27,020,000.00	7/1/2020	1,250,000.00	402,250.00	1,652,250.00	14,840,000.00
1/1/2008	0.00	675,500.00	675,500.00	27,020,000.00	1/1/2021	0.00	371,000.00	371,000.00	14,840,000.00
7/1/2008	705,000.00	675,000.00	1,380,000.00	26,315,000.00	7/1/2021	1,315,000.00	371,000.00	1,686,000.00	13,525,000.00
1/1/2009	0.00	657,875.00	657,875.00	26,315,000.00	1/1/2022	0.00	338,125.00	338,125.00	13,525,000.00
7/1/2009	735,000.00	657,875.00	1,392,875.00	25,580,000.00	7/1/2022	1,390,000.00	338,125.00	1,728,125.00	12,135,000.00
1/1/2010	0.00	639,500.00	639,500.00	25,580,000.00	1/1/2023	0.00	303,375.00	303,375.00	12,135,000.00
7/1/2010	765,000.00	639,500.00	1,404,500.00	24,815,000.00	7/1/2023	1,465,000.00	303,375.00	1,768,375.00	10,670,000.00
1/1/2011	0.00	620,375.00	620,375.00	24,815,000.00	1/1/2024	0.00	266,750.00	266,750.00	10,670,000.00
7/1/2011	795,000.00	620,375.00	1,415,375.00	24,020,000.00	7/1/2024	1,545,000.00	266,750.00	1,811,750.00	9,125,000.00
1/1/2012	0.00	600,500.00	600,500.00	24,020,000.00	1/1/2025	0.00	228,125.00	228,125.00	9,125,000.00
7/1/2012	830,000.00	600,500.00	1,430,500.00	23,190,000.00	7/1/2025	1,635,000.00	228,125.00	1,863,125.00	7,490,000.00
1/1/2013	0.00	579,750.00	579,750.00	23,190,000.00	1/1/2026	0.00	187,250.00	187,250.00	7,490,000.00
7/1/2013	870,000.00	579,750.00	1,449,750.00	22,320,000.00	7/1/2026	1,725,000.00	187,250.00	1,912,250.00	5,765,000.00
1/1/2014	0.00	558,000.00	558,000.00	22,320,000.00	1/1/2027	0.00	144,125.00	144,125.00	5,765,000.00
7/1/2014	910,000.00	558,000.00	1,468,000.00	21,410,000.00	7/1/2027	1,820,000.00	144,125.00	1,964,125.00	3,945,000.00
1/1/2015	0.00	535,250.00	535,250.00	21,410,000.00	1/1/2028	0.00	98,625.00	98,625.00	3,945,000.00
7/1/2015	955,000.00	535,250.00	1,490,250.00	20,455,000.00	7/1/2028	1,920,000.00	98,625.00	2,018,625.00	2,025,000.00
1/1/2016	0.00	511,375.00	511,375.00	20,455,000.00	1/1/2029	0.00	50,625.00	50,625.00	2,025,000.00
7/1/2016	1,005,000.00	511,375.00	1,516,375.00	19,450,000.00	7/1/2029	2,025,000.00	50,625.00	2,075,625.00	0.00
1/1/2017	0.00	486,250.00	486,250.00	19,450,000.00					
						\$29,000,000.00	\$22,440,027.78	\$51,440,027.78	

WSDOT: Outstanding Indebtedness: 2001-2030

Debt Service on Outstanding Indebtedness: 1976 - 2030



WSDOT 2003-2005 Bond Sales for the 2003 Transportation Funding Package

The 2003 Transportation Funding Package included two new bonding authorizations;

- *For the 2003 Transportation (Nickel) Account*, a \$2.6 billion dollar gas tax authorization.
- *For the Multimodal Account*, a \$349.5 million dollar General Obligation authorization.

Legislative appropriations for the 2003-2005 biennium

\$275 million for the 2003 Transportation (Nickel) account.

Current biennium expenditures dictate a slightly lower bond sale plan (as shown below).

\$47.7 million was appropriated for the Multimodal account.

Current biennium expenditures also dictate a slightly lower bond sale plan.

	Appropriations Authorized for 2003-05	Bonds Sold August 2003	Bonds Sold February 2004	Bonds Sold July 2004	Bond Sale Planned March 2005	Unsold Authority as of June 30, 2005
2003 Transportation Project Bonds (Nickel Account) <i>RCW 47.10.861</i>						
Highway Improvements	\$275,000,000	\$80,000,000	\$25,000,000	\$70,000,000	\$80,000,000	\$20,000,000
Multimodal Bonds (GO Bonds) <i>RCW 47.10.867</i>						
Multimodal Transportation Projects	\$47,700,000	\$0	\$20,000,000	\$0	\$24,022,000	\$3,678,000

Authorization Amounts

WSDOT's 2005-2007 budget proposal requires bond sales of \$1.1 billion.

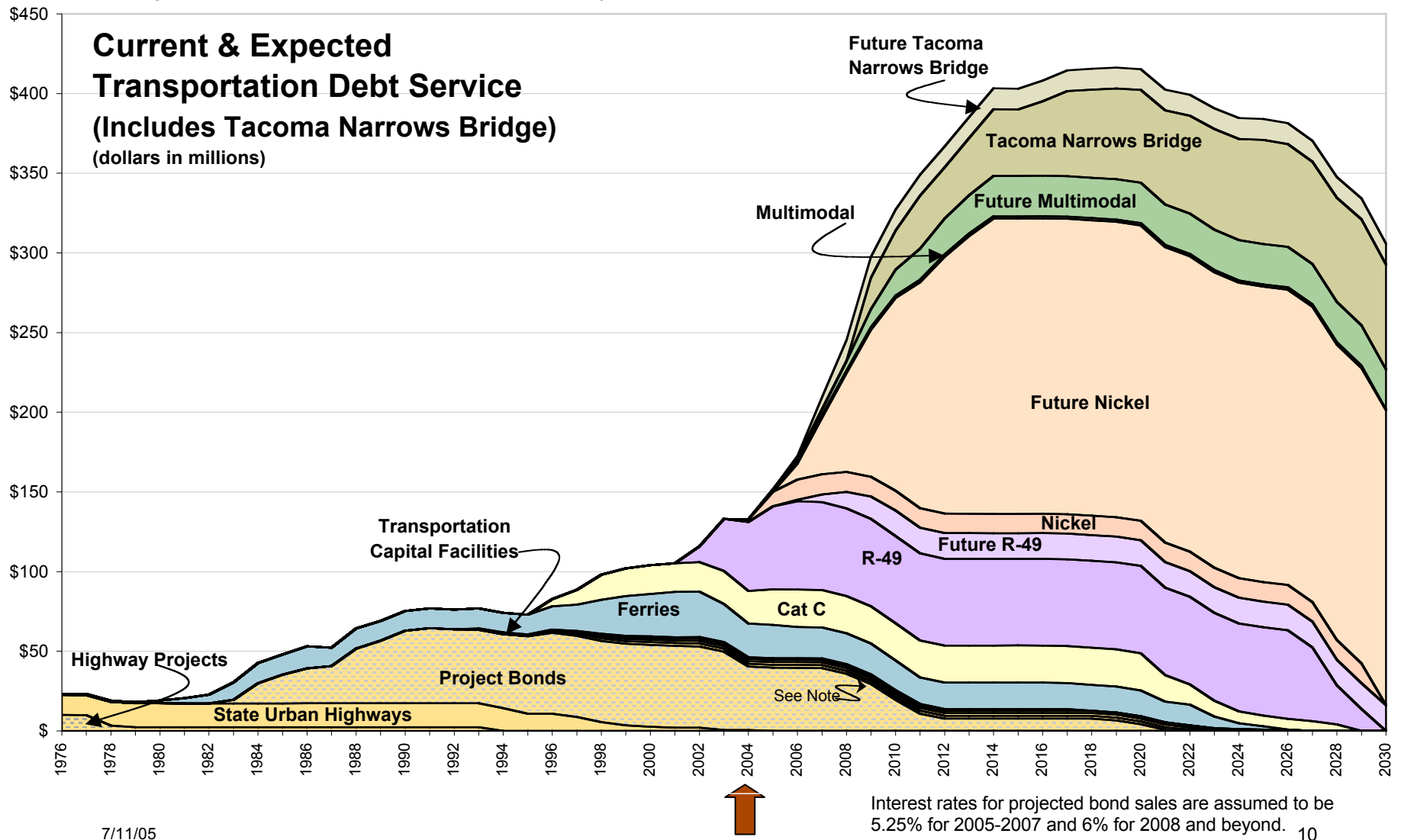
- ✓ \$257 million bond sale for the Tacoma Narrows Bridge
- ✓ \$704 million bond sale for the 2003 Transportation (Nickel) Account specified projects,
- ✓ \$48 million in State General Obligation (GO) bonds for the Multimodal account.

	Total Bonding Authorization	Bonds Sold as of August 1, 2004	Planned Sales for Remainder of FY 2005	Remaining Authority as of July 1, 2005	2005-2007 Budget Proposal	Remainder of 10-Year Plan	Remaining Authorization after 2013-15
2003 Transportation Project Bonds (Nickel Account) RCW 47.10.861							
Highway Improvements	\$2,600,000,000	\$175,000,000	\$80,000,000	\$2,345,000,000	\$704,000,000	\$1,641,000,000	\$0
Multimodal Bonds (GO Bonds) RCW 47.10.867							
Multimodal Transportation Projects	\$349,500,000	\$20,000,000	\$24,022,000	\$305,478,000	\$48,164,000	\$257,314,000	\$0
Referendum 49 Bonds RCW 47.10.813							
State and Local Highway Improvements	\$1,100,000,000	\$787,330,000	\$0	\$312,670,000	\$125,000,000	\$90,000,000	\$97,670,000
Set-aside for Tacoma Narrows Bridge*	\$800,000,000	\$498,000,000	\$45,000,000	\$257,000,000	\$257,000,000	\$0	\$0
Total R 49 Bond Authorization	\$1,900,000,000	\$1,285,330,000	\$45,000,000	\$569,670,000	\$382,000,000	\$90,000,000	\$97,670,000
Special Category C Bonds RCW 47.10.812							
Highway Improvements	\$330,000,000	\$330,000,000	\$0	\$0	\$0	\$0	\$0
Total Bond Sales Required to Support the 2005-07 Budget Proposal and Ten-Year Plan →					\$1,134,164,000	\$1,988,314,000	

*Some portion of the bond sale amount for Tacoma Narrows Bridge may not be needed to complete the financing of the project. It is too early to determine with any degree of accuracy how much may or may not be needed.

WSDOT's Existing & Future Planned Debt Service 1976 - 2030

Existing Principal and Interest payments on bonds sold through July 2004
and projected principal and interest payments on planned future bond sales.



Debt Service Requirements

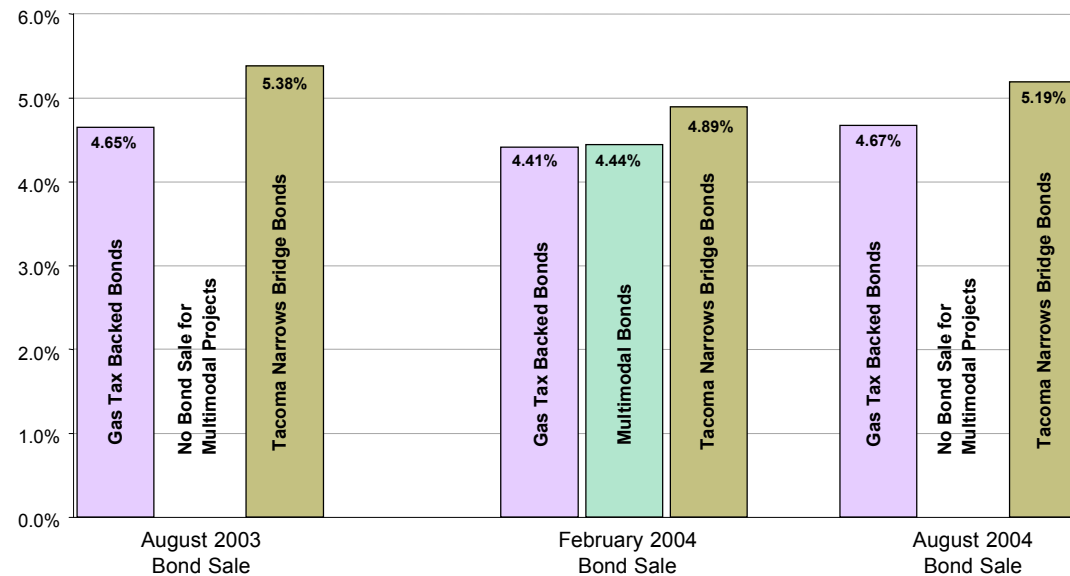
1¢ of gas tax generates approximately \$32.5 million in revenue per year

(September 2004 Transportation Revenue Forecast)

The amount of debt service that 1¢ of gas tax can pay for depends on the interest rate.

- At 4% interest, \$32.5 million will pay level debt service on about \$500 million of bonds.
- At 5% interest, \$32.5 million will pay level debt service on about \$450 million of bonds.
- At 6% interest, \$32.5 million will pay level debt service on about \$400 million of bonds.

Interest Rates on Bonds Sold for the 2003-2005 Biennium



* Multimodal Account Bonds will be paid from revenues deposited in the Multimodal account, i.e.. Rental Car Tax, Sales tax on new and used vehicles, and licenses, permits and fees.

** Tacoma Narrows Bridge toll revenues will be used to pay debt service on the TNB bonds.

Is there a limit to how much the state can borrow?

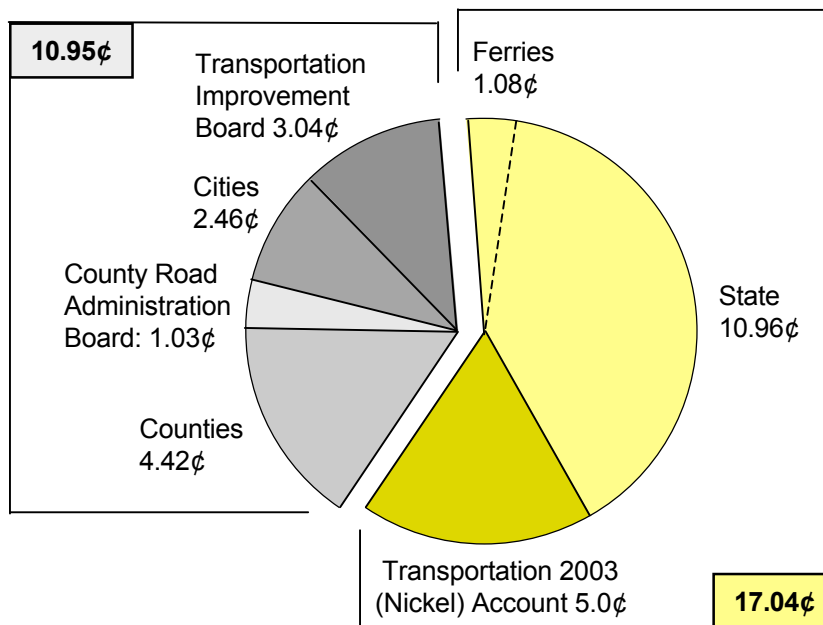
There are constitutional and state limits for state general obligation bonds.
[Article VIII, Section 1(b) of the Washington State Constitution]

However, gas tax backed bonds are “exempt” from the state debt limit,
[Article VIII, Section 1(g) of the Washington State Constitution] but like all state bonds they are constrained by the need for:

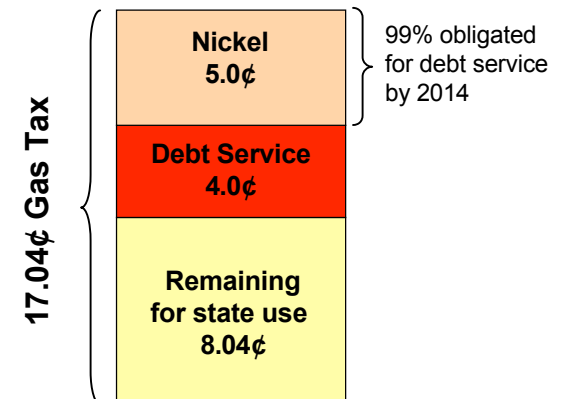
- ✓ Legislative Authority (60% majority of both houses)
- ✓ Budget Authority (50% majority)

How much of the gas tax is currently obligated to debt service?

Distribution of the 28¢ Gas Tax

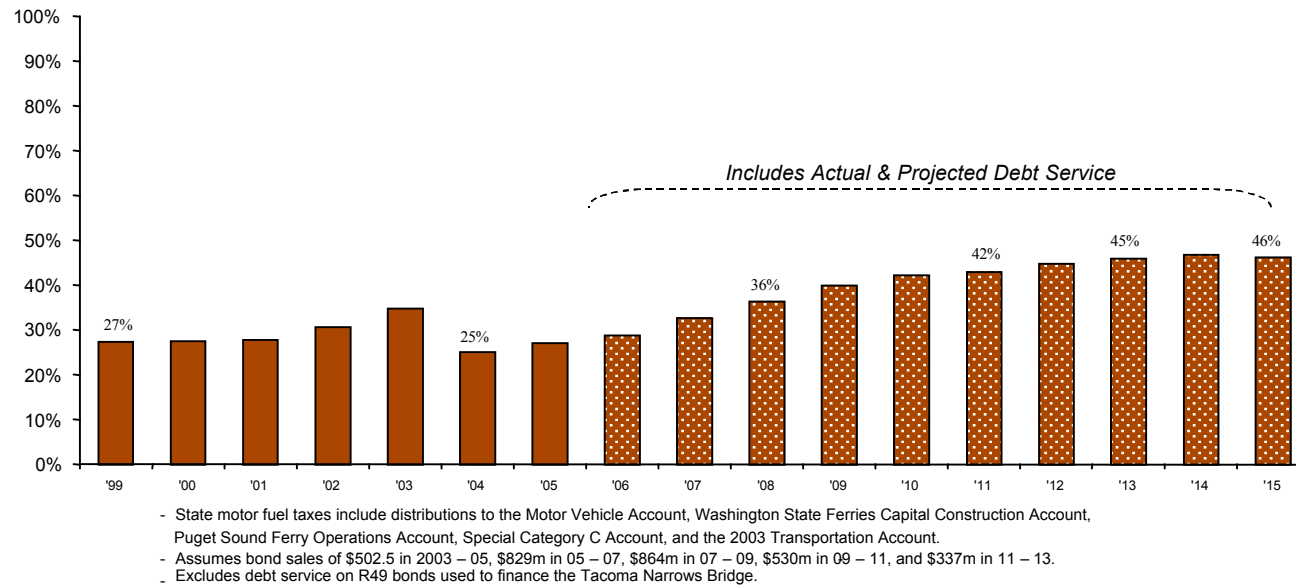


Distribution of WSDOT's 17.04¢ Portion of the Gas Tax

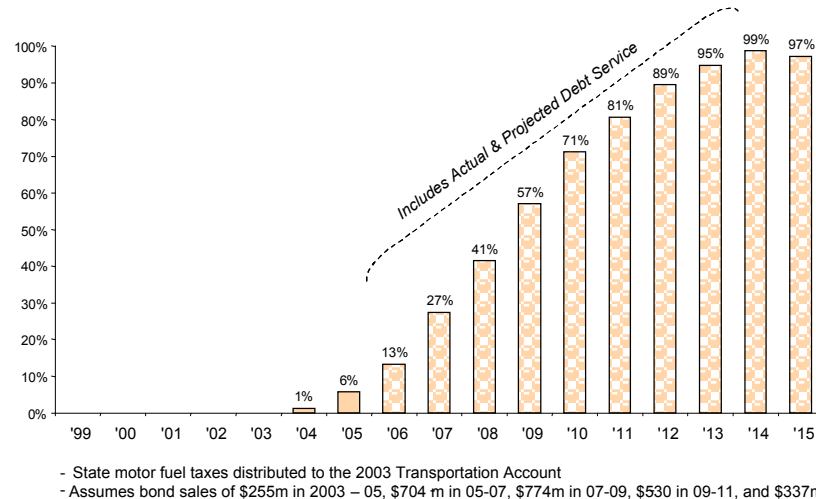


WSDOT's Percentage of Debt to Gas Tax Revenue

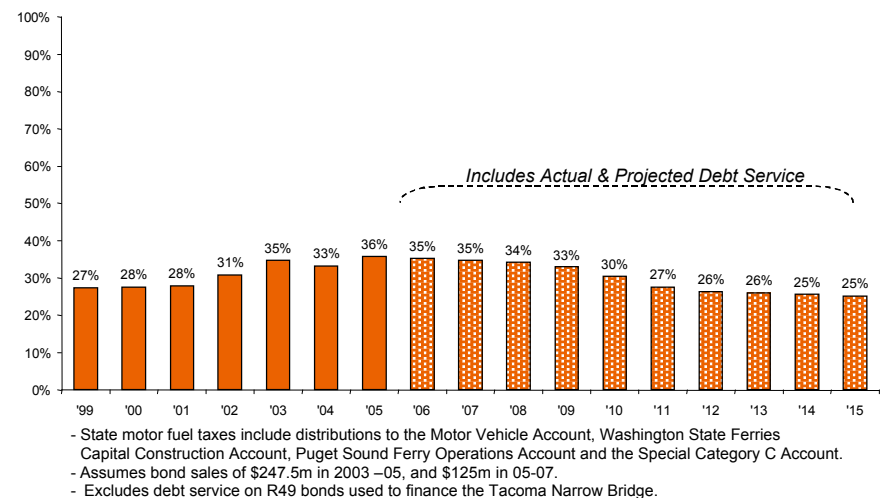
**Debt Service as a Percent of the State's Overall Share of the 28¢ Gas Tax
(State Portion of the 28¢ = 17.04¢)**



Debt Service as a Percent of the Nickel Gas Tax Increment



Debt Service as a Percent of the State Portion of the 23¢ Motor Fuel Tax (State Portion of the 23¢ = 12.04¢/gallon)



Bonding History Highlights

February 13, 1933

Future U.S. Senator Warren G. Magnuson leads State House of Representatives in passing a bill authorizing \$10,000,000 in emergency relief bonds for construction work (subsequently passed by the Senate on March 1 and signed by the governor on March 7). Although little of the money is used for highway purposes, according to director Murrow, 4/10 of one cent of the gas tax is set aside for interest and retirement of the bond issue. Before this point, Washington was one of the few states with no bonded highway indebtedness, having built on a pay as you go basis. Laws of 1933, ch. 65; 15th Biennial, 15; 1960 History, 15.

Washington State Toll Bridge History	Bonds Sold	Date Bridge Opened	Date Toll Removed	Toll Fee*
Agate Pass Toll Bridge (SR 305)	\$1,650,000	Oct. 1950	Oct. 1951	35¢
Biggs Rapids Bridge (US 97)	3,067,763	Nov. 1962	Feb. 1975	\$1.00
Evergreen Point Bridge (SR 520) (Second Lake Washington Bridge)	34,505,218	Aug. 1963	Jun. 1979	35¢
Fox Island Bridge (SR 303)	1,500,000	Aug. 1954	May 1965	50¢
Hood Canal; Puget Sound Ferry System (SR 104)	26,750,000	Aug. 1961	Sank Feb. 1979	\$1.50
Hood Canal; Puget Sound Ferry System (SR 104) (Rebuilt)		Oct. 1982	Aug. 1985	\$2.00
Lacey V. Murrow Memorial Bridge (I-90) (First Lake Washington Bridge)	9,823,557	Jul. 1940	Jul. 1949	25¢
Longview (SR 433) (Built in 1930, Purchased in 1947)	3,751,622	Dec. 1947	Oct. 1965	75¢
Port Washington Narrows Bridge (SR 303)	4,962,368	Nov. 1958	Oct. 1972	10¢
Spokane River Bridges (SR 2 / SR 395)	5,487,009	Jul. 1958	Jul. 1990	
Tacoma Narrows Bridge (US 16) (Second Bridge)	16,076,823	Oct. 1950	May 1965	50¢
Vancouver/Portland Bridge (I-5)	13,943,346	Jan. 1960	Nov. 1966	20¢
Vernita Toll Bridge (SR 24)	2,686,273	Oct. 1965	Dec. 1976	75¢

Toll rate shown was amount in effect on the date the toll was removed

Toll shown is for a vehicle and driver only. Toll rates vary by size of vehicle and number of occupants.

Ferry and Highway Bonding History	Amount Authorized	Outstanding Principal June 30, 2005	Date of Final Payment
Ferries, Laws of 1965	\$11,000,000	Paid in Full	1985
Ferries, Laws of 1977	\$135,000,000	\$3,000,000	2006
State Highway Project Bonds, Laws of 1979 (State Route 90)	\$100,000,000	\$64,000,000	2020
State Highway Project Bonds, Laws of 1981	\$460,000,000	\$130,000,000	2020
Ferries, Laws of 1992 (used for Jumbo Class)	\$210,000,000	\$147,000,000	2025
Special Category C, Laws of 1981 & 1993	\$330,000,000	\$274,000,000	2029
R-49, Laws of 1998	\$1,900,000,000	\$1,720,000,000	na
2003 Transportation Projects, Laws of 2003	\$2,600,000,000	\$168,715,000	na
Multimodal Transportation Projects, Laws of 2003	\$349,500,000	\$19,380,000	na

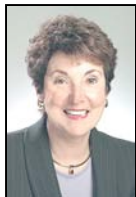
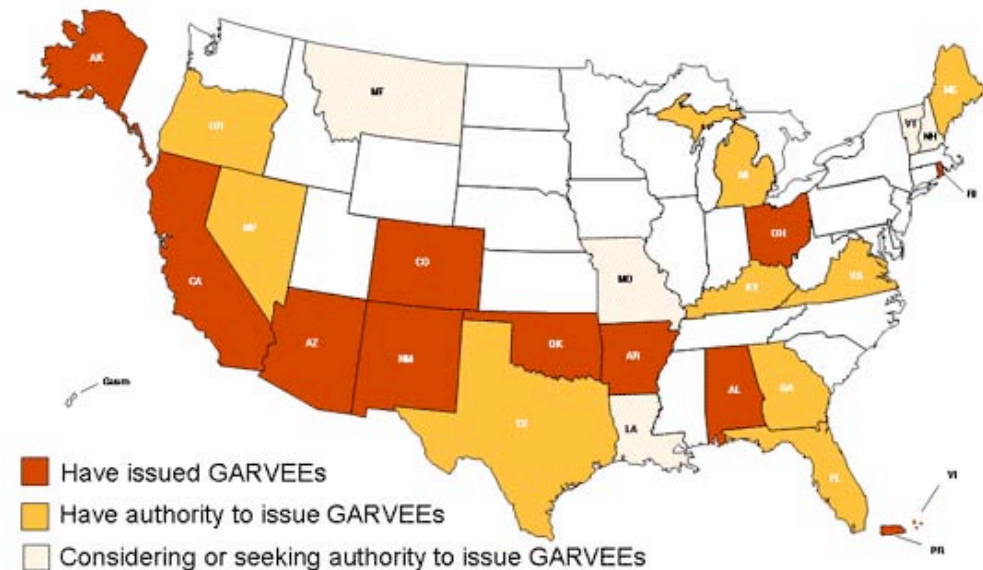
What is a GARVEE?

The 1995 National Highway Systems Act permitted states to pledge future federal aid for debt service.

Bonds issued by states pledging federal aid for debt service are known as Grant Anticipation Revenue Vehicles (GARVEES).*

- Ten states and two US territories have issued GARVEE backed bonds totaling \$5.0 billion.
- Nine other states have authorized GARVEE bonding authority.
- Other states are still considering.
- For many states, maturity dates are 12 years or less.

GARVEEs: State Participation



*GARVEEs were named for Jane Garvey, who was the deputy administrator for the Federal Highway Administration when the program was created.

States where GARVEE's have been issued

In the states where GARVEEs have been used, state programs and new laws were necessary to implement the program.

In crafting their GARVEE program some states have also implemented new state taxes to support their programs and to serve as another source of revenue to pay debt service.

State	Date of Issue	Amount of Issue \$ in millions	Project Financed	Backstop
Alabama	April 2002	\$200.0	County Bridge Program	All Federal construction reimbursements. Insured
Alaska	April 2003	\$102.8	8 road & bridge projects	Full faith and credit of state
Arizona*	June 2000	\$39.4	Maricopa Freeway Projects	Certain sub-account transfers. 2004 issue insured
	May 2001	\$142.9		
	July 2003	\$125.2		
	May 2004	\$51.0		
Arkansas	March 2000	\$175.0	Interstate Highways	Full faith and credit of state, and state motor fuel taxes
	July 2001	\$185.0		
	July 2002	\$215.0		
California	March 2004	\$615.0	8 Road Projects	Insured except 2005 series
Colorado**	May 2000	\$537.0	Any project financed wholly or in part by Federal Funds	Highway users tax fund and other state funds.
	April 2001	\$506.4		
	June 2001	\$208.3		
	August 2003	\$100.0		
	May 2004	\$134.6		
New Mexico***	September 1998	\$100.2	New Mexico SR 44 US 70	No backstop issues insured; issued insured
	February 2001	\$18.5		
	April 2004	\$700.0		
Ohio	May 1998	\$70.0	Various, including Spring-Sandusky & Mumee River Improvements	Other available funds, including gas taxes, subject to appropriations
	August 1999	\$20.0		
	September 2001	\$100.0		
	September 2002	\$135.0		
	December 2003	\$113.8		
Oklahoma	March 2004	\$47.6	Projects in 12 Corridors	None
Puerto Rico	April 2004	\$136.0	Various	No Backstop; debt service reserve
Rhode Island	November 2003	\$217.0	Freeway, Bridge & Freight Rail Improvement Projects	None
Virgin Islands	October 2002	\$20.8	Enighed Pond Port Project & Red Hook Passenger Terminal Building	Insured
Total		\$5,016.5		

* 23.8 million of outstanding June 2000 bonds were refunded.

** Colorado DOT issued \$400.2 million in June 2002 to refund prior bonds.

*** New Mexico refunded all prior GARVEEs as part of the 2004 bond sale.

How much of their estimated annual federal-aid apportionments are states pledging?

Estimated Federal Debt Service on GARVEE Bonds as a Percentage of Estimated Annual Federal-aid Apportionments*

	<i>TEA-21</i>		<i>Anticipated Reauthorization</i>									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Alabama	0.6	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Alaska			4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Arizona	0.4	2.1	4.5	9.2	8.7	8.7	1.7					
Arkansas		0.8	5.0	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1
Colorado	10.2	9.8	10.2	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7
New Mexico	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5	3.5			
Ohio		3.0	2.9	3.2	2.7	2.7	1.7					

Primary security for all of the states above is Federal-aid debt service reimbursement.

Backstop security varies by state, including full faith and credit of the state and motor fuel taxes, subaccount transfers, other state funds, and all federal construction reimbursements.

Based on 2002 total apportionments of Federal-Aid-Highway Funds to states

* Data available from 2002 only, no current data available

California's GARVEE program

\$615 million in GARVEEs have been issued.

In implementing their program, the California State Legislature placed a cap on the amount of anticipated federal funds that can be committed to debt service.

The law requires all outstanding GARVEE debt service to be less than 30% of an average of historical federal funds.

As the program has been implemented, California Transportation Commission policy guidelines state the intent NOT to issue over 15% of the historical average of federal funds.

Bond proceeds in this program will pay for 8 specified projects in the Los Angeles/ San Diego area.

Colorado's GARVEE program

\$1,486.3 million in GARVEEs have been issued.

Approximately \$600 million have been allocated to the southeast corridor (T-REX) project.

After extensive public outreach the 1999 Colorado Legislature enacted legislation that authorized CDOT to issue Transportation Revenue Anticipation Notes (TRAN).

The TRANs statute limits annual principal and interest to 50% of Colorado's Federal highway apportionments in the year prior to issuance.

Bond proceeds in this program will pay for 28 high priority projects including T-REX.

New Mexico's GARVEE program

\$818.7 million in GARVEEs have been issued.

New Mexico was the first state to issue bonds backed solely by future Federal-aid funds (1998). These funds were used to improve what is now US highway 550, from Albuquerque to Four Corners (118 miles).

New Mexico has no legal cap on the amount of federal funds that can be used for debt service, however the local FHWA office recommends no more than a 50% use of federal funds for debt service.

The NMDOT Transportation Commission sets policy on GARVEE use on a case by case basis.

Any new bond issues requested by NMDOT requires authorization by the the New Mexico State Legislature.

All recently refunded and all new NMDOT GARVEE bonds are now backed by both federal and state revenues.

The Role of the Office of the State Treasurer

The Office of the State Treasurer is the banking center for state government.

The Office of the State Treasurer provides:

- Banking
- Investment
- Debt issuance
- Accounting Services

The State Treasurer chairs the State Finance Committee

(The Governor and Lt. Governor are the other members)

- The committee is responsible for authorizing and issuing all state debt.

State Treasurer staff serves as staff to the State Finance Committee

- Works with legislative and agency staff in the preparation of bond bills.
- Engages professional service providers and market participants to help ensure that all debt is issued both prudently and cost effectively.
 - Financial advisors and other specialists
 - Legal counsel
 - National credit rating agencies
- Provides for the timely payment of principal of and interest.
- Determines the available debt capacity under the debt limits.
- Monitors opportunities to refund debt and recommend such refunding as appropriate.
- Promotes prudent fiscal practices.

Role of the Financial Advisor

- Analytic and informational resource.
- Advises on matters relating to the state's debt and capital plans.
- Structures bond issues.
- Executes financings.
- Works with rating agencies and credit enhancers.
- Bridge between the state and capital markets.
- Special projects.
- Financial advisors currently retained by the state:
 - Seattle-Northwest Securities Corporation
 - Montague DeRose and Associates, LLC
 - Susan D. Musselman Inc.